

**Department of Education**  
**Assistance to Schools**

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Subcommittee: Education

DESCRIPTION	FY 2002	FY 2003	FY 2004	
	ACTUAL	ESTIMATE	OSPB	JLBC
<b>OPERATING BUDGET</b>				
<i>Full Time Equivalent Positions</i>	72.8	71.8	71.8	57.3
<b>SPECIAL LINE ITEMS</b>				
<u>Statutory Formula Programs</u>				
Basic State Aid	2,358,212,200	2,329,140,400	2,532,724,300	2,543,149,100
Additional State Aid	230,896,400	249,844,500	268,809,200	245,963,500
Assistance to School Districts for Children of State Employees	99,500	35,200	99,500	99,500
Certificates of Educational Convenience	269,900	859,700	859,700	269,900
Special Education Fund	23,859,200	26,351,600	29,622,600	29,617,600
Subtotal	2,613,337,200	2,606,231,400	2,832,115,300	2,819,099,600
<u>Non-Formula Programs</u>				
Adult Education	4,366,100	4,438,200	4,433,700	0
AIMS Intervention and Dropout Prevention	510,200	550,000	550,000	0
Chemical Abuse	768,600	796,300	794,700	0
English Learner Grants		15,310,000	15,310,000	15,310,000
Extended School Year	498,200	500,000	500,000	500,000
Family Literacy	982,300	1,002,100	1,005,200	0
Gifted Support	1,291,600	1,301,600	1,301,400	1,301,400
Optional Performance Incentive Program	120,000	120,000	120,000	0
Parental Choice for Reading Success	992,500	2,000,000	2,000,000	1,000,000
Residential Placement	10,000	10,000	10,000	10,000
School Accountability	5,086,700	4,620,700	4,512,800	4,605,200
School Report Cards	288,500	443,700	439,100	439,100
School Safety Program	6,659,100	6,703,100	6,700,700	6,700,700
Small Pass-Through Programs	581,600	581,600	581,600	282,400
State Block Grant - Early Childhood	19,386,800	19,408,600	19,408,200	0
State Block Grant - Vocational Education	11,093,800	11,160,300	11,154,100	11,154,100
Vocational Education Extended Year	528,800	600,000	600,000	0
Subtotal	53,164,800	69,546,200	69,421,600	41,302,900
<b>PROGRAM TOTAL</b>	<b>2,666,502,000</b>	<b>2,675,777,600</b>	<b>2,901,536,800</b>	<b>2,860,402,500</b>
<b>FUND SOURCES</b>				
General Fund	2,589,152,300	2,600,927,800	2,876,761,000	2,796,054,600
<u>Other Appropriated Funds</u>				
Permanent State School Fund	72,263,000	70,263,000	20,263,000	59,761,100
Proposition 301 Fund	5,086,700	4,586,800	4,512,800	4,586,800
SUBTOTAL - Other Appropriated Funds	77,349,700	74,849,800	24,775,800	64,347,900
<b>SUBTOTAL - Appropriated Funds</b>	<b>2,666,502,000</b>	<b>2,675,777,600</b>	<b>2,901,536,800</b>	<b>2,860,402,500</b>
<b>TOTAL - ALL SOURCES</b>	<b>2,666,502,000</b>	<b>2,675,777,600</b>	<b>2,901,536,800</b>	<b>2,860,402,500</b>

**CHANGE IN FUNDING SUMMARY**

	FY 2003 to FY 2004 JLBC	
	\$ Change	% Change
General Fund	195,126,800	7.5%
Other Appropriated Funds	(10,501,900)	(14.0%)
Total Appropriated Funds	184,624,900	6.9%

**COST CENTER DESCRIPTION** — Assistance to Schools consists of programs that provide pass-through funding to school districts and charter schools. The largest of these is Basic State Aid, which provides the state's share of equalization assistance to school districts and charter schools based on a funding formula set in statute.



**Deferred Payment from FY 2003 GF 191,293,800**

The Education ORB for FY 2003 deferred \$191,000,000 in Basic State Aid funding from June 2003 (the last month of FY 2003) until July 2003 (the first month of FY 2004). This deferral is referred to as the “K-12 rollover.” The Education Omnibus Reconciliation Bill (ORB) appropriated \$191,293,800 in FY 2004 to pay for the rollover, including \$293,800 for interest costs related to the state’s deferred payment. Since these monies have already been appropriated, they will not be included in the General Appropriation Act.

The \$191,293,800 rollover appropriation for FY 2004 will not end the rollover. This recommendation assumes that an additional rollover will be required in FY 2004, this time deferring the June 2004 Basic State Aid payment until July 2004. In FY 2004, schools will receive 12 payments—1 late FY 2003 payment and 11 new payments. The rollover will end only when schools receive 13 months of payments in 1 year. The cost of ending the rollover would be another \$191 million over and above the \$191 million included in these estimates. Omnibus Reconciliation Bill language would be required in order to defer the June 2004 Basic State Aid payment until July 2004 (see “*JLBC Recommended Statutory Changes*”).

**Enrollment Growth GF 137,166,200**

The JLBC recommends a General Fund increase in Basic State Aid funding due to enrollment growth. The recommended \$137,166,200 increase is based on projected growth in the statewide Average Daily Membership (ADM) count for FY 2004. Basic State Aid funding for school districts and charter schools is based on their ADM counts.

Table 1 shows that we project a statewide grand total ADM count for school districts and charter schools combined of 937,564 in FY 2004, which would be an increase of 29,220 pupils (3.2%). By way of comparison, the statewide ADM count grew by 29,349 pupils (3.5%) during FY 2002. The FY 2002 ADM increase, however, included about 2,000 students from new Joint Technology Education Districts (JTED’s) that began operation that year. ADM growth for JTED’s is expected to be much lower in FY 2004 than in FY 2002 because the Education ORB from the 2002 Legislative Session placed a 2-year cap on JTED growth starting in FY 2003.

Year	Districts (including Charters)	State Charters	Total	Change	% Change
2001	803,522	47,104	850,626	18,758	2.3%
2002	822,329	57,646	879,975	29,349	3.5%
2003 est	840,898	67,446	908,344	28,369	3.2%
2004 est	860,675	76,889	937,564	29,220	3.2%

Table 2 shows separate ADM counts for charter and non-charter pupils in school districts.

	2002	2003	2004
School Districts	818,366	837,498	857,476
Dist. Sponsored Charters	3,963	3,400	3,200
St. Board Spon'd Charters	57,646	67,446	76,888
Total	879,975	908,344	937,564

The JLBC anticipates increased Basic State Aid costs of \$88,741,600 for school district enrollment growth (including district sponsored charter schools and current year ADM growth) and \$48,424,600 for state board sponsored charter school enrollment growth for FY 2004, for a total ADM-related increase of \$137,166,200.

**Net Assessed Valuation**

**(NAV) Growth GF (68,075,100)**

The JLBC recommends a General Fund decrease for Basic State Aid due to growth in statewide property values. The recommended \$(68,075,100) decrease assumes that the combined Net Assessed Value (NAV) of all properties statewide will grow by 5% for FY 2004. Growth in statewide NAV increases “local share” funding for Basic State Aid because the K-12 “Qualifying Tax Rate” (QTR) and the K-12 “County Equalization” tax rate generate more local funding when property values rise. This reduces the amount of K-12 equalization formula funding that must be provided by the state General Fund.

The estimated \$(68,075,100) savings for NAV growth does not include offsets for higher “Truth in Taxation” and Additional State Aid costs that occur when statewide NAV values increase. Those increases partially offset state savings due to NAV growth and are discussed separately below.

**School District Administrative Costs GF (41,839,100)**

The JLBC recommends a General Fund decrease for school district administrative costs. The recommendation would affect approximately 63% of school districts in the state. The remaining 37% would not be affected because they had per pupil administrative costs that were at least 10% lower than the statewide average for school districts of similar type and size during FY 2001 (the most recent data year). Omnibus Reconciliation Bill language would be required in order to implement this recommendation (see “*JLBC Recommended Statutory Changes*”).

**“Truth in Taxation”**

**Tax Rate Changes GF 18,188,100**

The JLBC recommends a General Fund increase for “Truth in Taxation” (TNT). The recommended \$18,188,100 increase is pursuant to A.R.S. § 41-1276, which requires a lowering of the K-12 QTR and County Equalization tax rates each year in order to offset growth in local property values. This increases Basic State Aid costs because it reduces the

amount of “local share” monies that are generated by the QTR and County Equalization tax rates and the state must make up the difference.

Data on local property values that are needed in order to precisely compute TNT reductions for FY 2004 will not be available until late January 2003. The JLBC, however, currently estimates that the current (FY 2003) QTR rates will have to be reduced for FY 2004 in order to comply with TNT laws (see Table 3).

Tax Rate	FY 2003	FY 2004
Qualifying Tax Rate (QTR)		
• High School districts and elementary districts located within a high school district	\$2.0296	\$2.0134
• Unified districts and elementary districts not located within a high school district	\$ 4.0592	\$4.0268
County Equalization Tax Rate (all districts)	\$0.4889	\$0.4850

A.R.S. § 41-1276 allows the Legislature to adopt QTR and County Equalization tax rates that exceed computed TNT rates. This must be done, however, through a concurrent resolution approved by an affirmative roll call vote of 2/3<sup>rds</sup> of the members of both House and Senate. This vote must be passed before the Legislature enacts the General Appropriation Act for the fiscal year affected, and must be preceded by a public hearing to discuss the issue. The JLBC Staff is required by February 15<sup>th</sup> of each year to report the computed truth in taxation rates for the following fiscal year to the Joint Legislative Tax Committee and the chairmen of the House and Senate Appropriations Committees.

**Teacher Experience Index** **GF (17,400,000)**

The JLBC recommends a General Fund decrease for the Teacher Experience Index (TEI) component of the Basic State Aid formula, which is authorized by A.R.S. § 15-941. The TEI provides higher levels of funding per pupil to school districts that have teachers with more years of experience. The recommended decrease would fund the TEI at 50% for FY 2004. Omnibus Reconciliation Bill language would be required in order to implement this recommendation (see “JLBC Recommended Statutory Changes”).

**Endowment Earnings** **OF (10,501,900)**  
**GF 10,501,900**

The JLBC recommends a Permanent State School Fund decrease and an offsetting General Fund increase for K-12 endowment earnings based on endowment earnings projections for FY 2004. Those projections indicate that endowment earnings will take a one-time dip of \$(10,501,900) in FY 2004 (dropping from \$72,263,000 in FY 2003 to \$59,761,100 in FY 2004) because of first-time implementation of a new formula for computing “expendable” endowment earnings required by Proposition 102 from November 1998. The recommendation includes

a General Fund increase of \$10,501,900 because the state monies must be used in order to offset any loss of endowment earnings monies for Basic State Aid.

On a related note, A.R.S. § 37-521, as amended by Proposition 301 (“Education 2000”), dedicates all growth in expendable endowment earnings above the FY 2001 level to the Education 2000 Classroom Site Fund. The estimated \$59,761,100 in expendable endowment earnings for FY 2004, however, is below the “baseline” level of endowment earnings from FY 2001 (\$72,263,000). As a result, no endowment earnings will be distributed to the Classroom Site Fund for FY 2004. For FY 2003 (the last year before full implementation of Proposition 102), we estimate that total expendable endowment earnings will equal \$93,393,500 and that \$21,130,500 in endowment earnings therefore will be allocated to the Classroom Site Fund (\$93,393,500 - \$72,263,000 = \$21,130,500).

**Career Ladder Phase-Out** **GF (6,915,700)**

The JLBC recommends a General Fund decrease for the Career Ladder program due to a recommended 8-year phase out. The estimated \$(6,915,700) decrease assumes that each Career Ladder District would be allowed to increase its Revenue Control Limit by 4.5% for FY 2004, versus the 5.5% increase that would be allowed under current law (A.R.S. § 15-918.04, Subsection A, paragraph 4). A.R.S. § 15-918.04 would have to be amended or notwithstanding in order to implement this recommendation (see “JLBC Recommended Statutory Changes”).

**Rapid Decline** **GF (4,859,700)**

The JLBC recommends a General Fund decrease in order to eliminate Rapid Decline funding for FY 2004. Rapid Decline funding is authorized by A.R.S. § 15-942, which allows schools that lose more than 5% of their students in any given year to be paid on a higher enrollment count than they actually have. A.R.S. § 15-942 would have to be repealed or notwithstanding in order to implement this recommendation (see “JLBC Recommended Statutory Changes”).

**Inflation Adjustment** **GF 4,792,200**

The JLBC recommends a General Fund increase for a 2% inflation adjustment for school district transportation and charter school Additional Assistance. Proposition 301 requires the Legislature to increase “the base level or other components of the Revenue Control Limit” by 2% each year through FY 2006.

**State Juvenile Education System** **GF (988,300)**

The JLBC recommends a General Fund decrease in Basic State Aid funding for the Department of Juvenile Corrections (DJC) because of lower projected ADM counts for the program. This would provide DJC with \$2,903,800 in total Basic State Aid funding for FY 2004.

**State Education Fund for Correctional**

**Education GF 62,000**

The JLBC recommends a General Fund increase in Basic State Aid for the Department of Corrections (DOC). This would provide the program with \$2,175,500 in total Basic State Aid funding for FY 2004. The program covers educational costs for pupils committed DOC who are 18 years old or younger or who are 21 years old or younger and have a disability.

**Other Adjustments GF 2,584,300**

The JLBC recommends a General Fund increase for “other adjustments” that affect the cost of Basic State Aid. These include funding for 1) education and transportation for pupils from “unorganized territories,” 2) “student loss,” 3) “tuition loss,” 4) small school transportation, 5) financial and compliance audits, 6) miscellaneous adjustments, 7) the small school services program, 8) county detention center education, and 9) county jail education.

Key components of this increase include \$222,000 for tuition loss, \$769,500 for financial and compliance audits, \$954,300 for miscellaneous adjustments due to the elimination of \$(954,300) in negative one-time adjustments, and \$207,600 for county detention center education.

**ADDITIONAL STATE AID**  
 (“Homeowner’s Rebate”)

**Net Assessed Valuation Growth GF 15,170,700**

The JLBC recommends a General Fund increase for Additional State Aid due to ongoing Net Assessed Value (NAV) growth. The recommended \$15,170,700 increase assumes 5% NAV growth for FY 2004. Data for precisely estimating NAV growth for FY 2004 will not become available until November 2003.

Additional State Aid is authorized by A.R.S. § 15-972, which requires the state to pay 35% of each homeowner’s school district primary property taxes—up to a maximum of \$500 per person. The program also pays homeowner primary property taxes that exceed 1% of the full cash value of a home. This second feature is referred to as the “1% cap” and is required by Article IX, Section 18 of the State Constitution, which limits Class 3 primary property taxes to no more than 1% of a home’s full cash value. All Class 3 properties are eligible for both “homeowner’s rebate” and “1% cap” funding.

**Desegregation Rebate GF (10,894,300)**

The JLBC recommends a General Fund reduction for eliminating the Homeowner’s Rebate on local property taxes that are collected for school district desegregation programs. A.R.S. § 15-910(G) allows school districts to increase their local “primary” property tax collections in order to pay for desegregation programs. Part of this cost is shifted to the state because the Homeowner’s Rebate is paid on total primary property taxes for schools. A.R.S. § 15-910 and A.R.S. § 15-972 would have to be amended in

order to implement this recommendation (see “JLBC Recommended Statutory Changes”).

**Excess Utilities Rebate GF (8,157,400)**

The JLBC recommends a General Fund reduction for eliminating the Homeowner’s Rebate on local property taxes that are collected for “excess utilities” expenditures. A.R.S. § 15-910(A) allows school districts to increase their local “primary” property tax collections in order to pay for “excess utilities.” As with desegregation programs, part of this cost is shifted to the state because the Homeowner’s Rebate is paid on total primary property taxes for schools, including “excess utilities” taxes, unless statute specifies otherwise. A.R.S. § 15-910 or A.R.S. § 15-972 would have to be amended to implement this recommendation (see “JLBC Recommended Statutory Changes”).

**OTHER STATUTORY FORMULA PROGRAMS**

**Assistance to School Districts for Children of State Employees GF 64,300**

The JLBC recommends a General Fund increase for enrollment growth in the Assistance to School Districts for Children of State Employees (ASDCSE) program.

The ASDCSE program is authorized by A.R.S. § 15-976, and is intended to supplement Basic State Aid funding for students whose parents are employed by and domiciled at the Arizona State Hospital, the Arizona State Schools for the Deaf and the Blind (ASDB), and institutions and facilities maintained by the Arizona Department of Corrections. The parents of such students typically do not pay property taxes in support of local K-12 programs, since they are housed in a state-owned facility.

**Certificates of Educational Convenience GF (589,800)**

The JLBC recommends a General Fund decrease due to a decline in the number of pupils requiring Certificates of Educational Convenience.

Certificates of Educational Convenience are authorized by A.R.S. § 15-825. The program primarily funds “excess” Group B costs for students who, under “open enrollment” (A.R.S. § 15-816.01), attend school in a school district in which they do not reside. Those “excess” costs equal the difference between actual special education expenses incurred by host school districts for non-resident students and the amount of funding that they receive for those students through the Basic State Aid formula.

**Special Education Fund GF 3,266,900**

The JLBC recommends a General Fund increase for the Special Education Voucher Fund based on current department estimates regarding the number of students who will require special education vouchers for FY 2004.

The Special Education Fund pays for 2 types of special education vouchers: 1) “institutional” vouchers pursuant to A.R.S. § 15-1201, and 2) “residential” vouchers pursuant



alternative to the Career Ladder program, which is being recommended for elimination.

**English Learner Grants** **GF** **\$0**  
 Laws 2001, Chapter 9, 2<sup>nd</sup> Special Session appropriated \$15,310,000 from the General Fund to the department in FY 2004 for English Learner Grants. As a result, this amount will not need to be included in the FY 2004 General Appropriation Act. The monies will be used for teacher training, compensatory instruction, instructional materials and supplies, reclassification bonuses and K-3 literacy programs that serve English Learners.

**PROPOSITION 301**

This section provides an overview of Proposition 301 funding, which was authorized by voters during the November 2000 General Election.

As shown in *Table 4*, the JLBC currently estimates that the 0.6 cent sales tax will generate \$445,172,100 for FY 2004. This assumes that sales tax revenues will grow by 0.7% during both FY 2003 and FY 2004.

*Table 4* also shows estimated distributions of Proposition 301 monies for FY 2003 and FY 2004. These distributions are based on the distribution formula prescribed for those monies in A.R.S. § 42-5029(E).

	<u>FY 2003</u>	<u>FY 2004</u>
<b>Revenues</b>		
Estimated 0.6% Sales Tax Revenue	\$ 442,077,600	\$445,172,100
<b>Expenditures</b>		
Students FIRST debt service	63,181,200	63,034,000
Universities	45,467,600	45,856,600
Community Colleges	11,366,900	11,464,100
Tribal Assistance	483,000	486,500
Additional School Days	31,530,100	31,530,100
School Safety	7,800,000	7,800,000
Character Education	200,000	200,000
School Accountability	6,675,200	6,842,300
Failing Schools Tutoring Fund	1,500,000	1,500,000
Income Tax Credit for Sales Tax Paid	25,000,000	25,000,000
Available for Site Fund: Sales Tax	248,873,600	251,458,500
Available for Site Fund: Land Trust	21,130,500	0
<b>Total Available for Site Fund</b>	<b>\$270,004,100</b>	<b>\$251,458,500</b>

The allocations shown in *Table 4* are estimates. Actual allocations will depend on sales tax collections for FY 2003 and FY 2004.

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**JLBC RECOMMENDED FORMAT** — Detailed Line Item for the Program. (*In FY 2003, the division had an Operating Lump Sum with Special Line Items for the Program format.*)

**JLBC RECOMMENDED FOOTNOTES**

*Standard Footnotes*

Basic State Aid - The above appropriation provides basic state support to school districts for maintenance and operations funding as provided by A.R.S. § 15-973, and includes an estimated \$59,761,100 in expendable income derived from the Permanent State School Fund and from state trust lands pursuant to A.R.S. § 37-521(B) for FY 2004.

Receipts derived from the Permanent State School Fund and any other non-state General Fund revenue source that is dedicated to fund Basic State Aid will be expended, whenever possible, before expenditure of state General Fund monies.

Except as required by A.R.S. § 37-521, all monies received during the fiscal year from national forests, interest collected on deferred payments on the purchase of state lands, the income from the investment of permanent funds as prescribed by the Enabling Act and the Constitution and all monies received by the Superintendent of Public Instruction from whatever source, except monies received pursuant to A.R.S. § 15-237 and 15-531, when paid into the State Treasury are appropriated for apportionment to the various counties in accordance with law. An expenditure shall not be made except as specifically authorized above.

Small Pass-Through Programs - The appropriated amount includes \$50,000 for the Academic Contest Fund, \$82,400 for Academic Decathlon, \$50,000 for Arizona Geographic Alliance, ~~\$40,000 for Arizona Humanities Council, \$25,200 for Arizona Principals' Academy, \$234,000 for Arizona School Service through Education Technology,~~ \$50,000 for Project Citizen, and \$50,000 for the Economic Academic Council.

State Block Grant for Vocational Education - The appropriated amount is for block grants to charter schools and school districts that have vocational education programs. It is the intent of the Legislature that monies appropriated in the General Appropriations Act for the State Block Grant for Vocational Education be used to promote improved student achievement by providing vocational education programs with flexible supplemental funding that is linked both to numbers of students in such programs and to numbers of program completers who enter jobs in fields directly related to the vocational education program that they completed. It is the intent of the Legislature that the amount of the State Block Grant for Vocational Education funding that is used for state level administration of the program be limited to no more than the amount used for such costs during the prior fiscal year plus the applicable amount of any pay raise that may be provided for state employees through legislative appropriation.

*Deletion of Prior Year Footnotes*

The JLBC recommends deleting footnotes regarding the Adult Education program because the program would not receive funding under this budget recommendation.

The JLBC recommends deleting the footnote regarding the Optional Performance Incentives Program because the program would not receive funding under this budget recommendation.

**JLBC RECOMMENDED STATUTORY CHANGES**

The JLBC recommends the following statutory changes:

- 1) Defer the June 2004 Basic State Aid payment until July 2004.
- 2) Increase by 2% the transportation funding rates per route mile in A.R.S. § 15-945 and the per pupil funding rates for charter school “Additional Assistance” in A.R.S. § 15-185(B4).
- 3) Reduce each school district’s Basic State Aid entitlement for FY 2004 by the extent to which its administrative costs for FY 2001 were not at least 10% below the statewide average for that year for districts of similar type and size.

- 4) Fund the Teacher Experience Index at 50% for FY 2004.
- 5) Reduce from 5.5% to 4.5% the percentage by which a Career Ladder school district may increase its Revenue Control Limit for FY 2004 and institute an 8-year phase out for the program.
- 6) Eliminate Rapid Decline funding.
- 7) Disqualify desegregation taxes from Homeowner’s Rebate funding.
- 8) Disqualify “excess utilities” taxes from Homeowner’s Rebate funding.
- 9) Repeal the State Block Grant for Early Childhood Education program.
- 10) Repeal the Adult Education program.
- 11) Repeal the Family Literacy program.
- 12) Amend Laws 2002, Chapter 295 in order to repeal a \$1 million FY 2003 appropriation in that bill that inadvertently duplicated a \$1 million appropriation for the Parental Choice for Reading Success program in the FY 2003 General Appropriation Act.
- 13) Eliminate state funding for the vocational education extended year program.
- 14) Repeal the AIMS Intervention/Dropout Prevention program.

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**SUMMARY OF FUNDS - SEE AGENCY SUMMARY**

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